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WORLD AGRICULTURAL STABILITY: THE U.S. VIEW

Statement by

United States Secretary of Agriculture Bob Bergland  
before the Committee for Agriculture at the Ministerial Level  
Organization for Economic Cooperation and Development  
in Paris, February 9, 1978

I appreciate this opportunity to meet with my fellow agriculture ministers from OECD member nations. When the Committee for Agriculture at the Ministerial Level last convened in 1973, I was of course not a part of the United States administration. I was, however, a member of the United States Congress and a farmer--and as much concerned with the issues then discussed as the Ministers.

It is especially timely that we meet in 1978 because the five years since the last Ministerial meeting provide an almost perfect study in contrast. We could hardly ask for a better opportunity to review cyclical change--and discuss the need for nations to work together in stabilizing world agriculture.

In the spring of 1973 we felt the effects of the 1972 short crop in the OECD area and the Soviet Union. As a result, we saw a rapid drawdown of U.S. grain stocks which the world had come to depend upon. And for many of us in developed countries, there was the beginning of a realization that food could not be taken for granted--that a dependable food supply would require joint effort and planning by the world's nations.

In mid-year 1973, U.S. stocks of wheat and coarse grains stood at 48 million metric tons--after a decline of 25 million tons in one year. In the following two years, U.S. stocks fell further to 31 million tons in 1974 and 27 million tons in 1975. World total grain stocks (including rice) reached a low of about 130 million tons in 1975.

In 1976, however, U.S. grain stocks turned upward, and this year we are estimating the mid-year carryover at about 75 million tons. That's almost three times the level of three years ago. U.S. grain stocks will be the highest since 1965 and wheat stocks the highest since 1963. World stocks may be down slightly from the high 187 million tons of a year ago. But the fact remains that scarcity has turned to abundance.

World output of all agricultural products in 1977 was 13 percent above 1972. Food production was up 14 percent during that time, and per capita food production was up 6 percent. Perhaps more encouraging is the fact that per capita food production in developing countries has for three years been 7 to 8 percent above 1972.

This year's abundance is mostly the result of three straight years of good weather. We know from experience that this could change--as rapidly as before. We know from experience that we must plan for uncertainty in weather--and that nations must join together in this planning. That's why we are meeting here this week. That's why we have been working together in Geneva, in Tokyo, in London. We are working to counter the uncertainty of natural forces.

In the past five years, however, it has become apparent that economic and social changes are introducing their own uncertainties. Agriculture not only must deal with nature, it must deal with basic changes in the character of agriculture itself. Today, I would like to outline some of those changes in the context of an enlarged U.S. commitment toward greater stability in world agriculture and trade.

In the past year, my country has moved toward policies that encourage stability and a strengthened cooperation with other countries in the interest of stability. We have done this through:

- (a) Domestic farm and food policies such as a farmer reserve program looking toward the holding in farmers' hands of 25 million tons of grains.
- (b) An increased willingness to support international commodity agreements wherever such proposals appear workable, practical, and not inimical to the U.S. market system.
- (c) A more explicit concern for stability and progress in developing countries, leading to enlarged U.S. aid programs and greater U.S. participation in international organizations concerned with poor countries.
- (d) A new impetus to our role in the Multilateral Trade Negotiations in Geneva, which we believe should set the pattern for stability in world trade for many years to come.

In all of these efforts, we should be aware of the sources of instability, some of which stem from changes in the farm economy itself. I should like to discuss five ways in which agricultural economies are changing--and some of the instabilities related to these changes.

1. Nations are more interdependent.

This is a generalization that most of us will recognize. But it is important to realize its full significance. Domestic and

international agricultures are integrated economically and in other ways. Agriculture is a world economy, affected by new public concerns such as consumerism, environment, and the availability and cost of energy.

The American farmer devotes almost one hectare in three to production for the world market. His products move out on trucks, rails, barges, and ships that are increasingly costly to operate and always susceptible to the actions of labor. Arriving in a foreign port, they are subject to scrutiny for wholesomeness by customers who are more and more sensitive to health and environmental questions.

As communications advance, farmers become aware of consumer desires and complaints. Urban people become cognizant of the farmer's problems and needs. Both producers and consumers have the means to put their complaints into the public spotlight -- as several thousand farmers proved to us in Washington a few weeks ago. In the market place, however, producers and consumers have moved farther apart -- less able than in the past to influence each other through the traditional interaction of economic forces.

## 2. Producers and consumers are at extreme ends of an elongating market chain.

The farm product component of food costs has become so small that most changes in producer prices have little effect on consumer prices. Thus consumer purchases may respond very little to farm price changes that to the farmer may loom very large, so large as to threaten farm failure and bankruptcy.

In this respect, I think that the agricultures of most developed countries are becoming more similar to agriculture in the United States. Last year, personal consumption expenditures for food in my country were \$218 billion. The farm value of that food represented about 30 percent of the total. Last year for the first time, total labor costs for marketing the foods which originate on U.S. farms actually exceeded the farm value of those foods.

Therefore it takes a large percentage change in the farmer's price to have an effect on consumer demand. Since 1974, for example, farm prices in the U.S. have stabilized or fallen, but retail food prices have continued to increase. White bread prices rose 3 percent during that period in the face of a 38-percent decline in wheat prices. The result of all this is a new source of volatility in the farm economy.

### 3. Farmers are subject to costs they cannot control.

Wherever agriculture is being modernized, this brings increased dependence on high cost capital goods. These large capital base changes bring an inflation of costs and place producers at the mercy of forces over which they have no control and to which they have inadequate means of adjustment.

In the days of horse and mule agriculture, American farmers' costs were generated within the farm economy. Feeds and fertilizer were produced on the farm. Insecticides and herbicides were fewer and less expensive. Power was provided by men and animals. Farmers had a large measure of control over these inputs and their costs.

Today, farmers are dependent on the national credit system. They depend on the steelworkers, the truckers, the dockworkers. They depend on international forces such as the Organization of Petroleum Exporting Countries (OPEC). I suggest that this growing dependence on others is not exclusive with American farmers but is important in all countries.

It is an element of instability in the global farm economy. It is a fact that will require increased attention in the policies of the governments represented in OECD.

#### 4. Developed countries have energy intensive agricultures.

Fuels, electricity, fertilizers, and other chemicals all take their toll in production costs and producer uncertainties. I would venture that every country represented in this room is fostering an agriculture that is increasingly energy intensive--without adequate consideration to the ramifications of this fact. Certainly, my own country is no exception.

Energy is a critical concern to American agriculture not only because of cost but because of uncertainties of supply. Natural gas has at times been in short supply, affecting propane and other fuels. Fertilizer supplies have caused concern. The only certainty is that energy prices will rise--in my country and yours.

Yet those farm enterprises that are most energy intensive may also be the most vocal in calling for protection against imports. We should all think about this. We should wonder whether, in the case of the most energy intensive commodities, it might not be better to consider certain phase-outs rather than new programs of border protection.

### 5. The agriculture sector is declining

To one degree or another, in every one of our countries, the producer sector is declining, at least in relative terms. In my country, this means less farm strength in the Congress. I often point out to my fellow U.S. farmers that we are outnumbered in the House of Representatives 400 to 35.

As a result, farm economies are more sensitive and food politics more volatile. Urban publics are sensitive to food prices and have the political muscle to pose a considerable threat. That is what caused the United States to impose its ill-fated price controls on meat in 1973, its ill-advised export restrictions on soybeans in 1973 and the informal temporary restraints on exports to some countries in 1974 and 1975.

Since food is so politically sensitive, national governments need to consider agricultural policies--both national and international--in a different context. In the long run, it seems to me, internal farm policies must be rational with respect to consumer wants and needs. Otherwise these policies will find it very difficult to meet the inexorable test of time.

Given the nature of all these issues--these sources of instability--it seems to me that each of our governments comes down to a choice of possible alternatives:

- (1) Every country can try to isolate itself from all sources of instability, both internal and external to the country.
- (2) Or we can look for ways in which international cooperation can be brought to bear on the problems of instability.

Assuming that our choice is Number Two--international cooperation--then we have to consider how our national policies will affect the success of such efforts. In the United States, we have taken a number of steps to deal with the problems of price and supply that I have been discussing. These are detailed in an Appendix, and I will not discuss them in this paper except for one general recommendation:

Domestic Policies Should be Flexible

It seems that governments almost invariably react to short-run events. In doing this, they may in fact make the long-run worse. Governments should be responsive but not overreactive to short-term circumstances. We will continue to have ups and downs--shortfalls and overproduction--and should permit enough flexibility so that natural adjustments can occur.

In saying this, I recognize that my own country is not without fault. The five-day soybean embargo in 1973 was a classic case of overreaction. We have suffered for it--probably more than have our own customers. Since 1975, however, our performance has been much better, and we are determined to be a dependable supplier.

As a matter of fact, we have tended to absorb most of the vagaries of soybean production at home and have exported rather regularly increasing quantities year after year. During the last 20 years our soybean exports multiplied seven-fold, from slightly over 2 to 16 million tons with a standard error of only 800,000 tons from the trendline. The only reserve drop below the trendline happened in 1975 when no restrictions on soybean exports were in effect. In 1977, with soybean stocks at a low level, we resisted all pressures to restrict exports.

This year, with prospective grain carryovers at the highest levels in years, we have been very careful about reducing acreage, despite pressures

to cut back plantings sharply. We announced a 20 percent set aside for wheat and a conditional 10 percent set aside for coarse grains. Actual reductions will be less.

We have embarked on a farmer-owned, farmer-controlled reserve program to place in reserve some 25 million tons of wheat, maize, sorghum, barley, and oats. However, in order to meet international obligations, we shall need smaller government-owned food-grain reserves, that is wheat. We are working for the successful negotiation of a new International Wheat Agreement or Wheat Trade Convention and the extension of the Food Aid Convention. In this connection we intend to ask our Congress to authorize a government-owned reserve of at least 6 million tons with authority for more and with flexibility to use it as future commitments under the Agreement and Convention to be negotiated may require.

This farmer-owned, farmer-controlled reserve program is being carried out under the Food and Agriculture Act of 1977, which was written to function within the U.S. market system and not to move toward government management of agriculture. Despite price and income problems in agriculture, a higher than satisfactory unemployment level, and resulting political pressures, we are a market economy and will continue to depend basically on markets for adjustment.

Meanwhile, we would like to see other nations, both importing and exporting, assume a larger share of the responsibility for building and maintaining reserves. This is an ideal time, with supplies large and prices low, for individual nations to acquire stocks. At the same time, the proposed International Wheat Agreement provides the opportunity for nations to join in an internationally coordinated system of reserves.

The United States is eager to meet its responsibilities toward maintaining and improving the world agricultural economy. But as events of

recent years have demonstrated, actions by individual nations or groups each going its own way cannot be effective in creating a strong global agriculture.

For this reason we would like to see the developed nations take greater leadership toward this objective. One important contribution would be to encourage more flexibility in the formulation of internal agricultural policies--policies which of course have a significant effect on world food supplies.

Such flexibility has not always been demonstrated in the past. An example is the period of short world grain supplies between 1972 and 1976, when there should have been a more universal shift away from feeding concentrates, both grains and protein feeds. This did occur in the United States, where coarse grain feeding was reduced by one-fourth while exports were reduced by only one-eighth.

Elsewhere policies do not encourage this kind of response to changes in supply. An insufficiently flexible policy fails to send signals to the market. A supply-responsive price policy helps to mitigate more extreme fluctuations by discouraging heavy feeding of concentrates in times of short supply and encouraging it during times of abundant grain supplies, such as we are experiencing now.

With large parts of the OECD area not participating in such adjustments the burden has tended to fall on the United States. In the United States, high grain prices following 1972 caused producers in a generally free market to reduce feeding and to market livestock at lighter weights. Now with grain in abundance, U.S. grain and cattle producers are both suffering from extremely low prices.

Meantime, the populations of developing countries also suffer from such ups and downs. In times of high grain prices, they are able to buy in the world market only at great sacrifice. In times of low grain prices poor countries attempting to develop their own agricultures are handicapped by low-priced competition flooding the world market.

Consequently, we need to develop mechanisms enabling the world to more equitably adjust to changing situations. Such mechanisms cannot be effective if only a few countries agree to implement them. Problems of supply and demand are global in scope, and a global effort is needed to solve them.

Some of the work needed to create such mechanisms is being done at the Multilateral Trade Negotiations in Geneva and in other forums such as the upcoming negotiations of the International Wheat Council which will be conducted under auspices of the United Nations Conference on Trade and Development (UNCTAD). But in order to really achieve this aim, we need to develop a better understanding of existing food production and marketing systems in order to determine how we might better coordinate them in making the necessary adjustments to ever-changing world agricultural conditions.

The United States has recently proposed an OECD project which would be a good start. Our proposal calls for a survey of extension services, or agricultural advisory services, as they are called in many countries, in the OECD countries. This survey would identify how extension services could improve their services to agriculture in light of a growing inter-relationship of agriculture with other sectors of the economy.

Another U.S. proposal for cooperative research on food production and food preservation was first submitted 2-1/2 years ago, more carefully elaborated during the following year, and is still waiting effective action. Greater coordination of the long-range basic research on food production

and food preservation is essential if we are to continue to meet world food needs. Such coordination would significantly improve the effective use of the limited financial, physical, and scientific personnel resources of the member countries.

In addition, the United States supports the five items listed under Paragraph 4 of the Agenda, and hopes that these might be a follow-up to this Ministerial meeting:

- (1) To encourage regular analysis of agricultural policy formulation and implementation within member OECD countries.
- (2) To make greater collective use of market analyses and forecasts in order to anticipate possible difficulties and find means to deal with them.
- (3) To work together in developing a common conception of what a food policy should consist of--what the objectives of such a policy should be and how those objectives might be best realized.
- (4) To step up our efforts to improve the functioning of markets and to insure a more orderly development of international trade--and when doing so, take into account the special needs of the developing countries.
- (5) To analyze the interdependence of agricultural policy actions--at both domestic and international levels--with policy actions in other sectors of our lives.

Admittedly, we have our work cut out for us, but it is work that we cannot afford to neglect. Should we do so, the result would be an agricultural environment of wild swings in production and prices, and we all will be the losers. Determined pursuit of these objectives will result in a greater understanding of this environment, and would suggest the means to create a

new level of stability in world agriculture and trade--to the advantage of all nations.

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FOOTNOTES

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